GREAT NORTHERN CAPITAL CORPORATION LIMITED

AND ITS SUBSIDIARY COMPANIES

AR41

Consolidated Statement of Income

for the six-month period ended June 30, 1968

(with comparative figures for the six-month period ended June 30, 1967)

	1968	1967
Sales:		
Land	$5,646,788	$2,711,129
Manufacturing and other	2,120,744	1,597,122
	7,767,532	4,308,251
Cost of sales:		
Land	1,656,172	1,246,809
Manufacturing and other	1,455,068	846,409
	3,111,240	2,093,218
Gross profit	4,656,292	2,215,033
Interest income	85,228	126,207
Other income	44,773	28,528
	4,786,293	2,369,768
Expenses:		
Operating, selling and administrative	1,389,351	1,462,748
Interest:		
Long-term debt	256,120	279,268
Other	56,714	75,629
Depreciation, depletion and amortization	151,533	123,711
Amortization of debt discount and financing expense	6,007	6,131
	1,859,725	1,947,487
	2,926,568	422,281
Appraisal surplus earned on land sold during the period	30,623	9,140
	2,957,191	431,421
Provision for income taxes	370,000	85,000
	2,587,191	346,421
Company's share of net income of a partnership	29,674	10,023
Net income for the period	$2,616,865	$ 356,444

To the Shareholders:

In submitting the interim report of your Company for the six months ended June 30, 1968, shareholders are reminded that your Company's business is both seasonal and cyclical in nature. As a result of this, reports for a six-month period may not necessarily be comparable with previous periods nor should they be taken as an indication of results on an annual basis.

August 27, 1968

ALLAN L. BEATTIE,
President

Statement of Source and Application of Funds

for the six-month period ended June 30, 1968

(with comparative figures for the six-month period ended June 30, 1967)

	1968	1967
Funds Provided By:		
Operations, excluding charges not requiring funds (depreciation, depletion, amortization and other) of $503,244 in 1968 and *$110,679* in 1967	$3,120,109	$467,123
Decrease in non-current portion of land inventory	123,006	—
Refund of collateral deposits	—	52,581
Other	16,151	6,308
	3,259,266	526,012
Funds Used For:		
Reduction in long-term debt	255,727	350,270
Net purchase of fixed assets	115,579	91,484
Collateral deposits	208,616	—
Purchase of minority interest in a subsidiary company	25,000	—
Increase in non-current portion of land inventory	—	87,477
	604,922	529,231
Net increase (decrease) in working capital	$2,654,344	$ (3,219)

Statement of Changes in Working Capital

for the six-month period ended June 30, 1968

	June 30, 1968	December 31, 1967	Working Capital Increase (Decrease)
Current Assets:			
Cash and bank term deposits	$1,228,268	$1,802,681	$ (574,413)
Accounts receivable	1,364,543	1,224,024	140,519
Amounts receivable under sale agreements	4,326,893	1,748,171	2,578,722
Inventories:			
Land	2,225,515	2,210,469	15,046
Other	462,547	559,378	(96,831)
Notes and mortgages receivable	32,728	20,600	12,128
Prepaid expenses	102,455	92,820	9,635
	9,742,949	7,658,143	
Current Liabilities:			
Bank indebtedness	988,435	1,339,264	350,829
Accounts payable and accrued liabilities	710,579	920,993	210,414
Income taxes payable	1,273,244	1,803,144	529,900
Accrued interest	76,187	65,073	(11,114)
Deposits on future land sales	4,747	17,351	12,604
Estimated costs to complete subdivisions under development	1,508,748	928,983	(579,765)
Demand notes payable	618,605	618,605	—
Current instalments on long-term debt	782,733	839,403	56,670
	5,963,278	6,532,816	
Working capital	3,779,671	1,125,327	
Net increase in working capital			$2,654,344

Toronto

Holding co. subs engaged in land devt in Cda + Pennsylvania.

Also carries out a clay brick mfg op through a sub.

GNC

INTERIM REPORT

SIX MONTHS ENDED JUNE 30, 1968

GREAT NORTHERN CAPITAL CORPORATION LIMITED

AUDITORS' REPORT

To the Directors of
WESTERN HERITAGE PROPERTIES LIMITED:

We have examined the consolidated balance sheet of Western Heritage Properties Limited and its consolidated subsidiary companies as at December 31, 1967 and the consolidated statement of income and earned surplus for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a consistent basis except for the change with respect to income taxes explained in note 2, with which change we concur.

Toronto, Canada
December 27, 1968.

(signed) CLARKSON, GORDON & CO.
Chartered Accountants.

WESTERN HERITAGE PROPERTIES LIMITED
(Incorporated as a Public Company under the laws of Ontario)
and its Subsidiary Companies

Consolidated Balance Sheet as at September 30, 1968
(with comparative figures as at December 31, 1967)

	September 30, 1968 (unaudited)	December 31, 1967
Assets		
Current:		
Cash	$ 479,079	$ 401,914
Accounts receivable	183,920	716,925
Amounts receivable under sale agreements	1,937,872	1,492,409
Inventories:		
Land, at cost (includes development costs of $1,858,040 in 1968 and $1,446,594 in 1967)	2,048,965	2,031,671
Other, at the lower of cost or estimated net realizable value	18,006	559,378
Notes and mortgages receivable due within one year	639	600
Prepaid expenses	53,459	91,204
Total current assets	4,721,940	5,294,101
Land inventory, at cost, less amount included in current assets	2,840,823	2,964,499
Options on land (see Note 3)	22,388	68,388
Notes and mortgages receivable, less amounts due within one year included in current assets	135,417	141,696
Other assets:		
Investment in a land development partnership (see Note 4)	271,341	229,946
Other, at cost	260,222	197,675
Fixed assets (see Note 5)	1,808,073	3,896,913
Unamortized debt discount and expense (accumulated amortization amounts to $60,062 in 1968 and $50,928 in 1967)	55,229	64,363
Unamortized excess of cost of investment in subsidiary companies over the underlying book value of their assets (see Note 1a)	962,416	1,212,149
	$11,077,849	$14,069,730

The accompanying notes are an integral part of the financial statements.

WESTERN HERITAGE PROPERTIES LIMITED

Incorporated as a Public Company under the laws of Ontario

and its subsidiary companies

Consolidated Balance Sheet as at September 30, 1968

(with comparative figures as at December 31, 1967)

Liabilities, Capital Stock and Deficit	September 30, 1968 (unaudited)	December 31, 1967
Current:		
Bank loans—secured (see Note 6)	$ 352,932	$ 639,264
Accounts payable and accrued liabilities	461,517	735,957
Income taxes payable	9,717	4,200
Accrued interest	102,982	36,202
Estimated cost to complete subdivisions under development	1,134,955	791,831
Current instalments on long-term debt	158,109	607,637
Total current liabilities	2,220,212	2,815,091
Due to parent company, including accrued interest	1,065,744	4,325,309
Long-term debt less current instalments included in current liabilities (see Note 7)	5,626,857	6,659,306
Minority interest (see Note 8)	1	1
Contingent liabilities (see Note 10)	—	—
Deferred income taxes	259,000	93,000
Capital stock and deficit:		
Capital stock—(see Note 9)		
Authorized: 3,000,000 shares without par value		
Issued and fully paid: 1,306,325 shares (1,195,388 in 1967)	1,561,699	1,245,388
Contributed surplus	7,000	7,000
Earned surplus (deficit)—per statement	337,336	(1,075,365)
Net shareholders' equity	1,906,035	177,023
	$11,077,849	$14,069,730

Approved by the Board:

A. L. Beattie, Director

Alan J. Scott, Director

The accompanying notes are an integral part of the financial statements.

WESTERN HERITAGE PROPERTIES LIMITED
and its subsidiary companies
Consolidated Statement of Income and Earned Surplus

	Nine-Months Ended September 30, 1968 (unaudited)	Nine-Months Ended September 30, 1967 (unaudited)	Year Ended December 31, 1967
Sales:			
Land	$ 4,933,440	$ 3,650,173	$ 5,099,759
Manufacturing and other	2,620,403	2,755,301	3,798,093
	7,553,843	6,405,474	8,897,852
Cost of sales:			
Land	2,096,313	1,655,339	2,349,165
Manufacturing and other	1,866,956	1,588,465	2,163,887
	3,963,269	3,243,804	4,513,052
Gross profit	3,590,574	3,161,670	4,384,800
Interest income	84,735	69,340	99,408
Other income	119,582	70,148	118,220
	3,794,891	3,301,158	4,602,428
Expenses:			
Operating, selling and administrative	1,977,133	2,044,230	2,982,109
Interest:			
Long-term debt	345,669	379,111	507,964
Other	235,865	238,112	311,741
Depreciation, depletion and amortization	157,265	185,449	307,553
Amortization of debt discount and financing expense	9,134	9,136	12,139
	2,725,066	2,856,038	4,121,506
	1,069,825	445,120	480,922
Provision for income taxes (see Note 2)	630,100	297,700	331,200
	439,725	147,420	149,722
Amortization of excess of cost of investment in subsidiaries over book value of their net assets at dates of acquisition (see Note 1 (a))	115,490	129,873	173,164
Net income (loss) for the period before extraordinary items	324,235	17,547	(23,442)
Add extraordinary items:			
Income tax credits resulting from the application of loss carry-forwards (see Note 2)	340,100	257,400	232,000
Gain on sale of investment in a subsidiary company (see Note 11)	748,366	—	—
	1,088,466	257,400	232,000
Net income for the period	1,412,701	274,947	208,558
Deficit at beginning of the period	(1,075,365)	(1,283,923)	(1,283,923)
Earned surplus (deficit) at end of the period	$ 337,336	$(1,008,976)	$(1,075,365)

The accompanying notes are an integral part of the financial statements.

WESTERN HERITAGE PROPERTIES LIMITED
and its subsidiary companies

Notes to Consolidated Financial Statements

(Amounts as at September 30, 1968 and for the nine months ended September 30, 1967 and 1968 are unaudited)

1. Statement Presentation and Foreign Exchange Conversion:

(a) In the accompanying financial statement the accounts of the subsidiary companies have been consolidated with those of the company.

In 1965 the company adopted a policy of amortizing the excess of the cost of investment in subsidiary companies over the underlying book value of their net assets at dates of acquisition, over a ten-year period on a straight-line basis. Amortization for the period ended September 30, 1968 was $115,490 ($173,164 for December 31, 1967) and accumulated amortization to date amounts to $638,421 ($522,931 at December 31, 1967).

If the excess of the cost of investment in subsidiary companies over the underlying book value of their net assets had been written-off at the dates of acquisition, the policy followed by Great Northern Capital Corporation Limited, the earnings would have been as follows:

	Nine Months Ended September 30, 1968	Nine Months Ended September 30, 1967	Year Ended December 31, 1967
Net income for the period per the accompanying consolidated statement of income	$1,412,701	$274,947	$208,558
Adjustment re amortization	115,490	129,873	173,164
Net income for the period as adjusted	$1,528,191	$404,820	$381,722

(b) U.S. dollar amounts included in the financial statements are converted into Canadian dollars at the official rate of exchange which approximates the current rate of exchange at December 31, 1967 and September 30, 1968.

2. Changes in Accounting Principles:

For the nine-months ended September 30, 1968 the company adopted a tax allocation basis of computing the provision for income taxes and accordingly the amount of the loss carry forward tax credit, which under the previous basis would have been netted against the tax provision, is included as an extraordinary item of income. The 1967 provisions have been restated to the basis adopted in 1968.

3. Options on Land:

A subsidiary company has options to purchase a total of 651.5 (831.5 at December 31, 1967) acres of land at prices varying from $300 to $1,200 per acre. The amount required to exercise all of the options after deducting recoverable option payments of $22,388 ($68,388 at December 31, 1967) is $317,612 ($344,212 at December 31, 1967). Fees of $1,200 are payable within one year to maintain the options.

4. Partnership Interest:

The company's 55% interest in a land development partnership is carried at cost plus the company's share of profits less losses since acquisition.

5. **Fixed Assets:**

Fixed assets, at cost, consist of the following:

	September 30, 1968	December 31, 1967
Land and land improvements	$ 187,520	$ 259,860
Buildings	757,893	1,453,197
Machinery and equipment	322,938	2,652,762
Country club and golf course facilities	1,248,368	1,153,935
Clay deposit and peat moss bog	—	454,612
	2,516,719	5,974,366
Less accumulated depreciation, depletion and amortization	708,646	2,077,453
	$1,808,073	$3,896,913

6. **Bank Indebtedness:**

Assets having a book value in excess of the bank indebtedness have been pledged as collateral against this liability.

7. **Long-Term Debt:**

Long-term debt consists of the following:

	September 30, 1968	December 31, 1967
Western Heritage Properties Limited:		
5% note due 1968	$ —	$ 100,000
6½% mortgage due 1968 to 1970	—	181,468
7% subordinated convertible debentures Series A due June 30, 1973	3,932,100	4,239,400
Miscellaneous mortgages	124,318	149,903
	4,056,418	4,670,771
Subsidiary companies:		
2¾% mortgage due 1968 to 1977	—	89,449
5½% mortgages due 1969	20,000	20,000
6% mortgages due 1968 to 1977	1,122,490	1,261,421
6% first mortgage bonds due $100,000 on March 31 of each year 1968 to 1971	—	400,000
7% mortgages due 1970 and 1971	67,610	77,993
7¼% mortgages due 1971	163,026	344,027
7½% mortgage due 1969	23,565	44,923
8% mortgages due 1969 and 1970	285,000	285,000
10% mortgage due 1969	35,950	61,200
Miscellaneous mortgages	10,907	12,159
	1,728,548	2,596,172
Total long-term debt	5,784,966	7,266,943
Less current instalments included in current liabilities	158,109	607,637
	$5,626,857	$6,659,306

The 7% debentures have been issued under a trust indenture and are redeemable at the option of the company in whole or in part at 102½% of the principal amount up to and including June 30, 1969 (103% up to June 30, 1968) and at decreasing premiums thereafter prior to maturity plus accrued interest to the date of redemption. The debentures are convertible at the option of the holder into shares in the capital of the company at $3 per share prior to redemption or maturity. During the period January 1, 1968 to September 30, 1968 $307,300 of debentures were converted into 102,437 shares of capital stock of the company. Subsequent to September 30, 1968 a further $91,700 of debentures were converted into 30,567 shares of the company.

8. Minority Interest:

Minority interest in subsidiary companies is carried at a nominal value of $1 due to the capital deficiency of these companies.

9. Capital Stock:

During the 1968 period, 110,937 shares were issued as follows: (1) 8,000 shares at $1 each and 500 shares at $2 each upon the exercise of employees' stock options (2) 102,437 shares at $3 each upon the conversion of $307,300 7% subordinated debentures.

During 1967 1,000 shares were issued at $1 each upon the exercise of employees' stock options.

The following shares are reserved for issue:

	September 30, 1968	December 31, 1967
(i) upon conversion of the 7% subordinated convertible debentures	1,310,696	1,413,133
(ii) upon exercise of share purchase warrants giving the right to subscribe at $3.50 per share to June 30, 1973	270,000	270,000
(iii) upon exercise of employees' stock options at:		
$1.00 per share exercisable 3,100 shares in 1968 and 7,400 shares to December 20, 1969	10,500	22,100
$2.00 per share exercisable at the rate of 500 shares annually to March 15, 1971	1,000	1,500
	1,592,196	1,706,733

10. Contingent Liabilities:

As at September 30, 1968 the company is contingently liable for sale agreements discounted in the approximate amount of $2,159,000 ($2,247,800 at December 31, 1967) and mortgage loans in the amount of $27,312 ($29,477 at December 31, 1967).

The company is also contingently liable for indebtedness owing by an affiliated company to its parent in the amount of $849,362 as at September 30, 1968.

Under an agreement dated June 1, 1966 a subsidiary company has guaranteed certain outstanding indebtedness of affiliated companies at September 30, 1968 in the amount of $600,000 ($1,000,000 at December 31, 1967) and as collateral for such guarantees has pledged its outstanding sale agreements, has given a general assignment of its book debts and has granted a first floating charge on all of its assets and undertaking.

11. General:

During the period the company acquired the minority interest in one of its subsidiary companies, Diamond Clay Products Limited, for $25,000. Subsequently, the company sold its entire investment in shares, notes and debentures of Diamond Clay Products Limited to Home Smith Developments Limited, a subsidiary of Great Northern Capital Corporation Limited, for a total consideration of $2,168,371 which has resulted in a gain of $748,366.

12. Subsequent Events:

On November 1, 1968 a subsidiary of the company sold substantially all of its land holdings to Home Smith Developments Limited at a value determined by independant appraisal. The total consideration amounted to $4,530,139 which is substantially in excess of cost.

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AUDITORS' REPORT

To the Directors of
GREAT NORTHERN CAPITAL CORPORATION LIMITED:

We have examined the consolidated balance sheet of Great Northern Capital Corporation Limited and its consolidated subsidiary companies as at December 31, 1967. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, this consolidated balance sheet presents fairly the financial position of the companies as at December 31, 1967 in accordance with generally accepted accounting principles.

Toronto, Canada,
December 27, 1968.

(signed) CLARKSON, GORDON & CO.
Chartered Accountants

AUDITORS' REPORTS

To the Directors of
GREAT NORTHERN CAPITAL CORPORATION LIMITED:

We have examined the accompanying consolidated statements of income and surplus of Great Northern Capital Corporation Limited (formerly Consolidated Toronto Development Corporation Limited) and its consolidated subsidiary companies insofar as they relate to the fiscal year ended November 30, 1963. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the results of the companies' operations for the fiscal year ended November 30, 1963 in accordance with generally accepted accounting principles.

Toronto, Canada,
December 27, 1968.

(signed) RIDDELL, STEAD, GRAHAM AND HUTCHISON
Chartered Accountants

To the Directors of
GREAT NORTHERN CAPITAL CORPORATION LIMITED:

We have examined the accompanying consolidated statements of income and surplus of Great Northern Capital Corporation Limited and its consolidated subsidiary companies insofar as they relate to the fiscal years ended December 31, 1964 and December 31, 1965. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the results of the companies' operations for the fiscal years ended December 31, 1964 and December 31, 1965, in accordance with generally accepted accounting principles, applied on a consistent basis (after giving effect to the changes in Note 2(c)).

Toronto, Canada,
December 27, 1968

(signed) DELOITTE, PLENDER, HASKINS & SELLS
Chartered Accountants

To the Directors of
GREAT NORTHERN CAPITAL CORPORATION LIMITED:

We have examined the accompanying consolidated statements of income and surplus of Great Northern Capital Corporation Limited and its consolidated subsidiary companies insofar as they relate to the fiscal years ended December 31, 1966 and December 31, 1967. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the results of the companies' operations for the fiscal years ended December 31, 1966 and December 31, 1967, in accordance with generally accepted accounting principles, applied on a consistent basis except for the changes explained in Note 2, with which changes we concur.

Toronto, Canada,
December 27, 1968.

(signed) CLARKSON, GORDON & CO.
Chartered Accountants

GREAT NORTHERN CAPITAL CORPORATION LIMITED

(Incorporated as a Public Company under the laws of Ontario)
and its consolidated subsidiary companies

Consolidated Balance Sheet as at September 30, 1968

(with comparative figures as at December 31, 1967)

Assets

	September 30, 1968 (unaudited)	December 31, 1967
Current:		
Cash and bank term deposits	$ 1,008,150	$ 1,802,681
Accounts receivable	1,373,709	1,224,024
Amounts receivable under sale agreements	3,730,767	1,748,171
Inventories—		
Land, including development costs of $1,898,986 in 1968 and $1,534,863 in 1967 (see note 3)	2,148,619	2,210,469
Other, at the lower of cost or estimated net realizable value	375,850	559,378
Notes and mortgages receivable due within one year (see note 5)	2,546,092	20,600
Prepaid expenses	132,766	92,820
Total current assets	11,315,953	7,658,143
Land inventory, less amount included in current assets (see note 3)	3,486,686	3,392,650
Options on land (see note 4)	22,388	68,388
Notes and mortgages receivable, less amounts due within one year included in current assets (see note 5)	1,403,786	3,290,065
Investment in a land development partnership (see note 6)	271,341	229,946
Fixed assets (see note 7)	3,724,763	3,898,089
Other assets—at cost	432,175	235,628
Unamortized debt discount and expense (accumulated amortization amounts to $60,062 in 1968 and $50,928 in 1967)	55,229	64,363
	$20,712,321	$18,837,272

(The accompanying notes are an integral part of the financial statements)

GREAT NORTHERN CAPITAL CORPORATION LIMITED

(Incorporated as a Public Company under the laws of Ontario)
and its consolidated subsidiary companies

Consolidated Balance Sheet as at September 30, 1968

(with comparative figures as at December 31, 1967)

Liabilities and Shareholders' Equity

	September 30, 1968 (unaudited)	December 31, 1967
Current:		
Bank indebtedness—secured (see note 8)	$ 741,478	$ 1,339,264
Accounts payable and accrued liabilities	760,011	920,993
Income taxes payable—secured in 1968 (see note 8)	925,679	1,803,144
Accrued interest	135,190	65,073
Deposits on future land sales	5,243	17,351
Estimated costs to complete subdivisions under development	1,251,299	928,983
Demand notes payable—secured (see note 8)	618,605	618,605
Current instalments on long-term debt	510,541	839,403
Total current liabilities	4,948,046	6,532,816
Long-term debt, less current instalments included in current liabilities (see note 9)	7,231,742	7,845,643
Deferred income taxes	276,000	93,000
Minority interest	264,403	1
Contingent liabilities (see note 11)	—	—
Shareholders' equity:		
Capital stock (see note 10)—		
Authorized:		
2,500,000 shares without par value		
Issued and fully paid:		
2,079,630 shares (2,078,630 in 1967)	1,684,233	1,679,233
Surplus—per statement (see note 9)	6,307,897	2,686,579
Total shareholders' equity	7,992,130	4,365,812
Approved by the Board:	$20,712,321	$18,837,272

A. L. Beattie, Director
A. P. Murphy, Director

(The accompanying notes are an integral part of the financial statements)

GREAT NORTHERN CAPITAL CORPORATION LIMITED

and its consolidated subsidiary companies

Consolidated Statement of Income

	Nine months ended September 30		Year ended December 31				November 30
	1968 (unaudited)	1967 (unaudited)	1967	1966	1965	*1964	1963
Sales:							
Land	$ 6,827,936	$3,985,353	$ 6,213,181	$ 9,216,850	$ 4,859,567	$4,838,560	$2,580,966
Manufacturing and other	3,798,249	2,755,301	3,798,093	3,537,889	3,131,572	1,291,488	—
	10,626,185	6,740,654	10,011,274	12,754,739	7,991,139	6,130,048	2,580,966
Cost of sales:							
Land	2,006,767	1,730,455	2,533,808	3,303,142	1,836,232	2,101,651	1,001,451
Manufacturing and other	2,574,003	1,588,465	2,163,887	2,234,593	1,923,200	588,258	—
	4,580,770	3,318,920	4,697,695	5,537,735	3,759,432	2,689,909	1,001,451
Gross profit	6,045,415	3,421,734	5,313,579	7,217,004	4,231,707	3,440,139	1,579,515
Add:							
Dividends and interest (includes income received from affiliated companies of $17,062 in 1964 and $84,233 in 1963)	309,657	195,019	254,505	124,163	363,951	436,130	604,829
Other income	120,032	70,373	117,171	124,345	45,081	97,472	230,618
Company's equity in net income of unconsolidated subsidiary company (see note 1 (a)).	—	—	—	—	—	382,412	—
	6,475,104	3,687,126	5,685,255	7,465,512	4,640,739	4,356,153	2,414,962

Less:							
Operating, selling and administrative expenses	2,320,301	2,332,830	3,449,805	3,119,696	2,968,794	1,610,163	569,699
Interest—long term debt (including amortization of debt discount and financing expenses)	389,657	425,453	569,196	639,129	552,299	470,267	421,266
—other	141,751	168,913	217,444	256,149	279,264	207,940	185,683
Depreciation, depletion and amortization	221,413	185,449	307,744	346,560	300,825	121,572	43,304
	3,073,122	3,112,645	4,544,189	4,361,534	4,101,182	2,409,942	1,219,952
	3,401,982	574,481	1,141,066	3,103,978	539,557	1,946,211	1,195,010
Provision for income taxes (see note 2(b))	2,153,500	385,600	701,000	1,868,478	810,100	864,400	615,400
Net income (loss) for the period before extraordinary items and minority interest	1,248,482	188,881	440,066	1,235,500	(270,543)	1,081,811	579,610
Less minority interest	97,072	—	—	(4,431)	(59,977)	13,800	—
Net income (loss) for the period before extraordinary items	1,151,410	188,881	440,066	1,239,931	(210,566)	1,068,011	579,610
Add (deduct) extraordinary items:							
Income tax credits resulting from the application of loss carry-forwards (see note 2(b))	1,937,903	496,300	890,100	1,158,600	—	—	—
Other (see note 13)	438,647	—	(372,229)	111,568	(5,201,696)	1,777,134	(4,061)
	2,376,550	496,300	517,871	1,270,168	(5,201,696)	1,777,134	(4,061)
Net income (loss) for the period	$ 3,527,960	$ 685,181	$ 957,937	$ 2,510,099	$ (5,412,262)	$2,845,145	$ 575,549

*Note—thirteen month period.

(The accompanying notes are an integral part of the financial statements)

GREAT NORTHERN CAPITAL CORPORATION LIMITED
and its consolidated subsidiary companies

Consolidated Statement of Surplus

	Nine months ended September 30		Year ended December 31				November 30
	1968 (unaudited)	1967 (unaudited)	1967	1966	1965	*1964	1963
EARNED SURPLUS (DEFICIT)							
Balance beginning of the period	$2,515,875	$1,557,938	$1,557,938	$ (952,161)	$4,884,011	$4,663,827	$4,244,120
Add:							
Net income (loss) for the period	3,527,960	685,181	957,937	2,510,099	(5,412,262)	2,845,145	575,549
Gain on conversion of subsidiary's debt into common shares	189,256	—	—	—	—	—	—
	6,233,091	2,243,119	2,515,875	1,557,938	(528,251)	7,508,972	4,819,669
Less:							
Dividends paid	—	—	—	—	422,667	657,475	155,842
Write-off of excess of cost of investments in subsidiary companies over the underlying book value of their consolidated net assets at dates of acquisition (less recovery of prior year's write-off in 1968) (see note 2(c))	65,275	—	—	—	1,243	1,967,486	—
	65,275	—	—	—	423,910	2,624,961	155,842
Balance at end of the period	6,167,816	2,243,119	2,515,875	1,557,938	(952,161)	4,884,011	4,663,827
APPRAISAL SURPLUS							
Balance at beginning of the period	170,704	246,386	246,386	435,595	543,220	992,132	1,147,119
Less:							
Amount earned on land sold during the period	30,623	6,613	75,682	189,209	107,625	179,274	154,987
Amount earned on disposal of fixed assets during the period	—	—	—	—	—	269,638	—
	30,623	6,613	75,682	189,209	107,625	448,912	154,987
Balance at end of the period	140,081	239,773	170,704	246,386	435,595	543,220	992,132
Total surplus	$6,307,897	$2,482,892	$2,686,579	$1,804,324	$ (516,566)	$5,427,231	$5,655,959

*Note—thirteen month period.

(The accompanying notes are an integral part of the financial statements)

GREAT NORTHERN CAPITAL CORPORATION LIMITED

and its consolidated subsidiary companies

Notes to Consolidated Financial Statements

(Amounts as at September 30, 1968 and for the nine months ended September 30, 1967 and 1968 are unaudited)

1. Statement Presentation and Foreign Exchange Conversion

(a) In the accompanying financial statements the accounts of subsidiary companies have been consolidated with those of the company from dates of acquisition except for Atlantic Acceptance Corporation Limited. (52% interest in common shares acquired effective January 1, 1964—went into receivership June 17, 1965.) The accounts of Atlantic were not consolidated with those of company in 1964 and 1965 because of the substantially different nature of the business undertaken by Atlantic. The company's share of the earnings of Atlantic for the year ended December 31, 1964 have been included in the accompanying consolidated statement of income.

Certain amounts shown in consolidated earned surplus in the annual accounts for the years 1963 to 1967 inclusive, have been reclassified as extraordinary items in the attached consolidated statement of income.

(b) U.S. dollar amounts included in these financial statements are converted into Canadian dollars at the official rate of exchange, except for the 5½% Notes, payable in U.S. dollars, which prior to 1967 were converted on the basis set out in Note 2(e).

2. Changes in Accounting Principles

(a) In the years prior to 1968 the company had followed a policy of amortizing the development costs of a peat bog over its estimated useful life. In 1968 the unamortized development costs of the peat bog have been written off and are included in extraordinary items in the consolidated statement of income for the nine months ended September 30, 1968 after taking into account a reduction of $74,000 for the applicable portion of deferred income taxes.

(b) For the nine months ended September 30, 1968 the company adopted a tax allocation basis of computing the provision for income taxes and accordingly the amount of the loss carry-forward tax credit, which under the previous basis would have been netted against the tax provision, is included as an extraordinary item of income. The 1967 provisions have been restated to the basis adopted in 1968. No change in earlier years' figures is required.

The loss carry-forward tax credits shown for the years 1966 to 1968 inclusive become available principally as a result of the acquisition in 1966 of all the issued shares of Commodore Sales Acceptance Ltd. (now Home Smith Developments Limited) (which along with its parent company, Atlantic Acceptance Corporation Limited had been placed in Receivership in 1965). The cost of the shares, $730,000, written off in 1966, has been netted in the attached statement against the 1966 loss carry-forward tax credit.

(c) In 1966 the company changed its method of accounting for the cost of a water distribution system and operating advances to a country club in the land development project of a subsidiary company. This resulted in a charge to surplus account in 1966 of $670,925. In the attached statement $519,653 of this amount, representing costs incurred and advances made in 1964 and 1965 has been shown as costs and expenses of those years ($158,276 in 1964 and $361,377 in 1965) and the balance of $151,272 representing the costs and advances which had been accumulated to July 1, 1964, the date of the acquisition of the subsidiary, has been charged against earned surplus in 1964.

(d) Because of the material amounts involved in previously unrecorded expropriations of land, the company in 1967 changed its policy with respect to the recording of income arising from expropriations. While the previous policy had been to defer the recording of an expropriation until final settlement of price, the current policy is to reflect in sales the amount of an offer at the time the offer is received from an expropriating body. As a result of this change in policy, 1967 sales and gross profits were increased by $790,000 and $636,925 respectively, representing the amounts involved in expropriation of two parcels of land for which final settlement prices had not then been determined. One such expropriation occurred in 1967 (offering price of $440,000 included in sales; gross profit $388,153; settled subsequent to September 30, 1968 at $790,000) and the second in 1962 (offering price included in sales $350,000; gross profit $248,772). It is expected that final settlement with the expropriating authority on the remaining parcel will also exceed the amount offered.

(e) Prior to 1967 the $5\frac{1}{2}\%$ notes due 1977, payable in U.S. dollars, were converted at the rate prevailing at their issue. In 1967 the policy set out in Note 1(b) was adopted for the $5\frac{1}{2}\%$ notes and $372,229 was charged to extraordinary items—other to reflect this change.

3. LAND

Land is carried at cost except for certain land which is carried at 1953 appraised value. The amount of the appraisal write-up remaining in the accounts as at September 30, 1968 was $140,081 ($170,704 at December 31, 1967) of which $2,644 ($39,189 at December 31, 1967) is included in current assets. Appraisal surplus earned on land sold during the period has been grouped in cost of sales.

4. OPTIONS ON LAND

A subsidiary company has options to purchase a total of 651.5 acres (831 acres at December 31, 1967) of land at prices varying from $300 to $1,200 per acre. The amount required to exercise all the options after deducting recoverable option payments of $22,388 ($68,388 at December 31, 1967) is $317,612 ($344,212 at December 31, 1967). Fees of $1,200 are payable within one year to maintain the options.

5. NOTES AND MORTGAGES RECEIVABLE

The company's investment in notes and mortgages is recorded at cost except for:

(1) senior secured notes of Atlantic carried at estimated realizable value;

(2) certain promissory notes outstanding in the amount of U.S. $49,070 carried at a nominal value of $1.

Included in notes and mortgages receivable are 10% notes due February 28, 1966 in the amount of $1,870,000 (classified as current assets at September 30, 1968 and non-current assets at December 31, 1967). These notes including accrued interest were paid in full on November 29, 1968. Accumulated interest prior to 1968, which had not previously been recorded, has been included in the accompanying consolidated statement of income in 1968 as an extraordinary item.

6. PARTNERSHIP INTEREST

The company's 55% interest in a land development partnership is carried at cost plus the company's share of profits less losses since acquisition.

7. FIXED ASSETS

Fixed assets, at cost, consist of the following:

	September 30, 1968	December 31, 1967
Land and land improvements	$ 259,859	$ 259,860
Buildings	1,449,726	1,455,855
Machinery and equipment	2,763,142	2,691,578
Country Club and golf course facilities	1,248,368	1,153,935
Clay deposit and peat moss bog	311,516	454,612
	6,032,611	6,015,840
Less accumulated depreciation and depletion	2,307,848	2,117,751
	$3,724,763	$3,898,089

8. BANK INDEBTEDNESS, INCOME TAXES PAYABLE AND DEMAND NOTES

Assets having a book value in excess of the bank indebtedness, income taxes payable and demand notes payable have been pledged as collateral against these liabilities. At December 31, 1967 assets now securing the income taxes payable had been pledged as collateral against certain bank indebtedness.

9. LONG-TERM DEBT

Long-term debt consists of the following:

		September 30, 1968	December 31, 1967
Great Northern Capital Corporation Limited—			
5½% notes due 1977 (U.S. $3,800,000)		$4,108,104	$4,108,104
6% first mortgage bonds due 1970		123,276	128,099
		4,231,380	4,236,203
Subsidiary companies—			
2¾% mortgage due 1968 to 1977		82,879	89,449
5% note due 1968			100,000
5½% mortgages due 1969		20,000	20,000
6% mortgages due 1968 to 1977		1,190,713	1,261,421
6% first mortgage bonds due $100,000 on March 31 of each year 1969 to 1971		300,000	400,000
6½% mortgage due 1968 to 1970			181,468
7% subordinated convertible debentures			
Series A due June 30, 1973	3,932,100		
Less inter-company holdings	2,818,100	1,114,000	1,421,300
7% mortgages due 1970 and 1971		67,610	77,993
7¼% mortgage due 1969 to 1972		255,961	344,027
7½% mortgage due 1969		23,565	44,923
8% mortgage due 1969 and 1970		285,000	285,000
10% mortgage due 1969		35,950	61,200
Miscellaneous mortgages		135,225	162,062
		3,510,903	4,448,843
Total long-term debt		7,742,283	8,685,046
Less current instalments included in current liabilities		510,541	839,403
		$7,231,742	$7,845,643

The 5½% notes due December 1, 1977 are secured by a floating charge on the assets and undertaking of the company. Pursuant to the terms of the agreement in connection with the issuance of the notes, the company may not make any distribution to the shareholders by way of dividends or otherwise in cash or other assets except to the extent that any such distribution shall be represented by consolidated net earnings accrued since December 1, 1957.

On December 1, 1968 and on December 1, in each year thereafter to and including December 1, 1976, the company is required to apply to the prepayment of the notes, without premium, the sum of U.S. $200,000. In addition, the company is required to apply to the prepayment of the notes, without premium, the sum of U.S. $100,000 upon the repayment of certain of the demand notes and the sale of certain land owned by a subsidiary company, which land secures the subsidiary's guarantee of the said demand notes. The company may prepay the 5½% notes at any time upon payment of a premium of 2½% to November 30, 1968, decreasing ¼% annually to November 30, 1976 and without premium thereafter.

The 7% subordinated debentures Series A of a subsidiary company have been issued under a trust indenture and are redeemable at the option of the subsidiary in whole or in part at 102½% of the principal amount up to and including June 30, 1969 (103% up to June 30, 1968) and at decreasing premiums thereafter prior to maturity plus accrued interest to the date of redemption. The debentures are convertible at the option of the holder into shares in the capital of the subsidiary company at $3.00 per share prior to redemption or maturity. During the period January 1, 1968 to September 30, 1968 $307,300 of debentures were converted into 102,437 shares of capital stock of the subsidiary company.

Subsequent to September 30, 1968 a further $91,700 of debentures were converted into 30,567 shares of the subsidiary company.

10. Capital Stock

(a) During 1966 the company issued 200,000 shares from its treasury at a value of $3.50 per share as consideration for the purchase of all the outstanding shares of Commodore Sales Acceptance Limited.

(b) During 1968 1,000 shares were issued at $5.00 each for cash under an employees' stock option plan.

11. Contingent Liabilities

As at September 30, 1968 a subsidiary company is contingently liable for sale agreements discounted in the approximate amount of $2,159,000 ($2,247,800 at December 31, 1967) and mortgage loans in the amount of $27,312 ($29,477 at December 31, 1967).

12. General

As a result of a proposal made to creditors under Part III of the Bankruptcy Act on April 21, 1966, all liabilities of Commodore Sales Acceptance Limited were extinguished with the exception of certain amounts owing to a secured creditor. The liability to this creditor is restricted by agreement to the amounts realized by him out of his security. Accordingly, the assets securing his indebtedness and the offsetting liability are not included in the accompanying consolidated balance sheet.

13. Extraordinary Items—Other

Details of extraordinary items—other, included in the consolidated statement of income are as follows:

Nine months ended September 30, 1968 (unaudited)		
Prior years' accrued interest on outstanding notes (see note 5)	$ 503,484	
Write-off of unamortized peat bog expenditures (see note 2a)	(64,837)	$ 438,647
Year ended December 31, 1967		
Foreign exchange adjustment on certain long-term debt (see note 2e)		$ (372,229)
Year ended December 31, 1966		
Net of gain on sale or write-down of marketable or other investments	$ 122,632	
Gain on disposal of fixed assets	60,153	
Loss on winding up of Windsor Clay Brick operation	(71,217)	$ 111,568
Year ended December 31, 1965		
Gain on sale of investments	$ 412,682	
Write-down of marketable and other investments to an estimated realizable value	(196,763)	
Gain on disposal of fixed assets	385,485	
Write-down of investment in Atlantic Acceptance Corporation Limited		
—Shares to nominal value of $1	(5,428,100)	
—Senior secured notes to estimated realizable value	(375,000)	$(5,201,696)
Year ended December 31, 1964 (13 months)		
Gain on sale of investments	$ 1,579,202	
Gain on disposal of fixed assets	197,932	$ 1,777,134
Year ended November 30, 1963		
Write-down of miscellaneous investments to an estimated realizable value	$ (476,634)	
Gain on sale of investments	472,573	$ (4,061)

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TAKE-OVER BID CIRCULAR

Accompanying the Offer dated December 30, 1968 (the "Offer") by Great Northern Capital Corporation Limited ("Great Northern") to acquire shares of Western Heritage Properties Limited ("Western Heritage").

1. Payment of the cash portion representing any fractional interest in Great Northern shares to be issued pursuant to the Offer will be made by cheque to be sent by Montreal Trust Company within ten (10) days after receipt of the properly endorsed certificates of Western Heritage. Payment of the aforesaid cash portion will be provided out of the working capital of Great Northern.

2. Set forth below are the number of securities of Western Heritage beneficially owned, directly or indirectly, by Great Northern, by an associate of Great Northern, by each director and senior officer of Great Northern and their associates, and by any person or company that beneficially owns, directly or indirectly, equity shares of Great Northern carrying more than 10 per cent of the voting rights attached to all equity shares of Great Northern for the time being outstanding:

Name	Position	No. of Securities Beneficially Owned
Home Smith Developments Limited	Shareholder	940,300 shares
J. P. Walwyn	Director of Great Northern	1,900 shares and $1,000 debentures

3. The following table sets forth the trades in securities of Western Heritage by persons or companies referred to in Paragraph 2 above during the period from June 1, 1968 to the date of the Offer and the trades by other persons and companies which were in the same category during the said period:

Name	Date	Sold	Bought	Designation	Price
J. P. Walwyn	Aug. 8	500		Shares	$3.35
(Director)	Aug. 21	1000		Shares	$3.40
	Aug. 21	1000		Shares	$3.45
	Aug. 22	1000		Shares	$3.50
	Aug. 23	1000		Shares	$4.00
	Aug. 25	500		Shares	$4.50
	Sept. 8	100		Shares	$5.50
	Sept. 10	100		Shares	$5.75
	Sept. 13	200		Shares	$5.75
	Sept. 17	500		Shares	$5.00
	Sept. 18	200		Shares	$5.00
	Sept. 18	100		Shares	$4.90
	Sept. 18	500		Shares	$4.85
	Sept. 18	400		Shares	$4.80
	Sept. 25	600		Shares	$5.00
	Oct. 23	200		Shares	$6.00
	Nov. 1		500	Shares	$6.375
	Nov. 1		500	Shares	$6.50
	Nov. 8	200		Shares	$7.00
Mrs. J. P. Walwyn	Sept. 16	100		Shares	$5.25
(Wife of a Director)	Sept. 19	100		Shares	$5.00
	Oct. 28		1	Share	$5.00
	Oct. 29	134		Shares	$6.00
Prismac Limited (Associate of J. E. McConnell, a former Director, retired December 18, 1968)	Sept. 6	500		Shares	$5.125

Name	Date	Sold	Bought	Designation	Price
Angusdale Limited (Associate of J. E. McConnell, a former Director, retired December 18, 1968)	Sept. 6	500		Shares	$5.125
McConnell Leaseholds Limited (Associate of J. E. McConnell, a former Director, retired December 18, 1968)	Sept. 6	200		Shares	$5.125
	Sept. 6	300		Shares	$5.25
McConnell Securities Corporation Limited (Associate of J. E. McConnell, a former Director, retired December 18, 1968)	Sept. 6	500		Shares	$5.25
	Sept. 6	200		Warrants	$3.80
	Oct. 28	500		Warrants	$3.45
	Oct. 28	500		Warrants	$3.65
	Oct. 28	500		Warrants	$3.75
	Oct. 28	500		Warrants	$3.85
	Oct. 29	1000		Warrants	$3.95
	Oct. 29	500		Warrants	$3.90
	Oct. 29	500		Warrants	$3.95
	Oct. 31	1000		Shares	$6.25
	Nov. 6	2300		Warrants	$3.80
	Nov. 6	500		Warrants	$3.85
	Nov. 7	400		Warrants	$3.85
	Nov. 11	400		Shares	$6.50
	Nov. 12	600		Shares	$6.50
	Nov. 17	1000		Warrants	$3.90
	Nov. 17	900		Warrants	$3.95
J. E. McConnell, (a former Director, retired December 18, 1968)	Oct. 23	500		Shares	$5.25
	Oct. 24	100		Shares	$5.375
	Oct. 28	400		Shares	$5.375

4. The volume of trading and price range on the Vancouver Stock Exchange of the Western Heritage shares sought to be acquired pursuant to the Offer of Great Northern monthly since the first day of June, 1968, has been as follows:

Month	High	Low	Volume
June	$2.40	$1.70	7,200
July	$2.85	$2.40	10,200
August	$5.375	$2.60	183,676
September	$6.00	$4.10	125,369
October	$6.625	$4.30	131,949
November	$7.375	$5.50	91,265
December 1 to December 24	$7.375	$6.25	37,583

5. Any shares deposited by a shareholder may be withdrawn by him or on his behalf at any time until the expiration of seven (7) days from the date of the Offer.

6. No arrangement or agreement has been made or is proposed to be made between Great Northern and any of the directors or senior officers of Western Heritage, nor is any payment or any other benefit proposed to be made or given by way of compensation for loss of office or as to their remaining in or retiring from office if the Offer of Great Northern is accepted.

7. The only material changes in the financial position or prospects of Western which have taken place since the date of the interim consolidated financial statement of Western Heritage and its subsidiaries, dated September 30, 1968, enclosed with the Offer, are the sale of assets as follows:

(i) As of November 1, 1968 certain lands in Ontario and certain lands in Alberta and British Columbia were conveyed by Canarama Western Limited, a subsidiary of Western Heritage, to Home Smith Developments Limited for an aggregate price of $4,530,139. The Ontario lands are unimproved and are located in Markham Township and in the Town of Burlington. The total purchase price for these lands is $3,311,000. The British Columbia and Alberta properties represent both improved and unimproved lands which were sold for $1,219,139. The purchase prices were the appraised values of the respective properties as of February, 1968, and are to be paid over a certain period of time but not later than December 31, 1971.

(ii) $91,700 7% Debentures have been converted into 30,567 Western Heritage shares.

8. The consents of the auditors of Great Northern to the inclusion of their reports on the consolidated balance sheet of Great Northern and its subsidiaries as at December 31, 1967 and on the consolidated statements of income and surplus for the fiscal years ended November 30, 1963 and December 31, 1964, 1965, 1966 and 1967, in the material accompanying this Take-Over Bid Circular are reproduced as follows:

"To Great Northern Capital Corporation Limited:

We hereby consent to the use of our report dated December 27, 1968 on the consolidated balance sheet of Great Northern Capital Corporation Limited and its consolidated subsidiary companies as at December 31, 1967 and the consolidated statements of income and surplus for the fiscal years ended December 31, 1966 and December 31, 1967, accompanying the Take-Over Bid Circular in connection with the Offer by Great Northern Capital Corporation Limited to the shareholders of Western Heritage Properties Limited.

Toronto, Canada
December 27, 1968

(signed) Clarkson, Gordon & Co.,
Chartered Accountants."

"To Great Northern Capital Corporation Limited:

We hereby consent to the use of our report dated December 27, 1968 on the consolidated statements of income and surplus of Great Northern Capital Corporation Limited and its consolidated subsidiary companies for the fiscal years ended December 31, 1964 and December 31, 1965, accompanying the Take-Over Bid Circular in connection with the Offer by Great Northern Capital Corporation Limited to the shareholders of Western Heritage Properties Limited.

Toronto, Canada
December 27, 1968

(Signed) Deloitte, Plender, Haskins & Sells,
Chartered Accountants."

"To Great Northern Capital Corporation Limited:

We hereby consent to the use of our report dated December 27, 1968 on the consolidated statements of income and surplus of Great Northern Capital Corporation Limited and its consolidated subsidiary companies for the fiscal year ended November 30, 1963, accompanying the Take-Over Bid Circular in connection with the Offer by Great Northern Capital Corporation Limited to the shareholders of Western Heritage Properties Limited.

Toronto, Canada
December 27, 1968

(Signed) Riddell, Stead, Graham and Hutchison
Chartered Accountants."

9. The contents of the Offer and of this Take-Over Bid Circular have been approved and the delivery thereof authorized by the Directors of Great Northern.

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DIRECTORS' CIRCULAR

Issued in connection with the Offer by Great Northern Capital Corporation Limited ("Great Northern") dated the 30th day of December, 1968, for shares of Western Heritage Properties Limited ("Western Heritage").

1. The number and designation of the securities of Western Heritage beneficially owned, directly or indirectly, by each director and senior officer of Western Heritage and their associates as defined by The Securities Act, 1966, of Ontario, is as follows:

Name	Position	Number of Shares	7% Convertible Debentures
J. P. Walwyn	Director	1900	$ 1,000
Alan J. Scott	Vice-President and Director	4200	Nil
John G. Paul	Vice-President and General Manager—Canarama Western Limited	5965	Nil
George C. Solomon	Director	200	Nil
Gordon E. Smith	Director	5879	$28,000
J. D. Ritchie	Vice-President	3111	$500

So far as is known to the directors and senior officers of Western Heritage, the only person or company that owns beneficially, either directly or indirectly, equity shares of Western Heritage carrying more than 10 per cent of the voting rights attached to all equity shares of Western Heritage for the time being outstanding is Home Smith Developments Limited, a wholly-owned subsidiary of Great Northern, which owns 940,300 shares representing 70.17 per cent of the outstanding shares of Western Heritage.

2. It is the intention of each director and senior officer of Western Heritage and their associates to accept the Offer of Great Northern in connection with which this Directors' Circular is issued.

3. No securities of Great Northern are beneficially owned, directly or indirectly, by a director or senior officer of Western Heritage or their associates other than shares of Great Northern as follows:

Name	Position	Number of Shares
A. L. Beattie	President and Director	200
G. E. Creber	Director	10
Alan J. Scott	Director and Vice-President	25
Mrs. Alan J. Scott	Wife of Director and Vice-President	300
A. R. Voelker	Director and Vice-President, Secretary and Treasurer	1,000
R. E. Macnaughton	Director	7
Gordon E. Smith	Director	700
J. P. Walwyn	Director	1

4. No arrangement or agreement has been made or is proposed to be made between Great Northern and any of the directors or senior officers of Western Heritage, nor is any payment or any other benefit proposed to be made or given by way of compensation for loss of office or as to their remaining in or retiring from office if the Offer of Great Northern is accepted.

5. No director or senior officer of Western Heritage or their associates has any interest in any material contract to which Great Northern is a party.

6. The volume of trading and price range on the Vancouver Stock Exchange of the Western Heritage shares sought to be acquired pursuant to the Offer of Great Northern monthly since the first day of June, 1968, has been as follows:

Month	High	Low	Volume
June	$2.40	$1.70	7,200
July	$2.85	$2.40	10,200
August	$5.375	$2.60	183,676
September	$6.00	$4.10	125,369
October	$6.625	$4.30	131,949
November	$7.375	$5.50	91,265
December 1 to December 24	$7.375	$6.25	37,583

7. The only material changes in the financial position or prospects of Western Heritage which have taken place since September 30, 1968, the date of the unaudited consolidated financial statements of Western and its subsidiaries accompanying the Offer, are the sales of the properties by Canarama Western Limited set forth in Paragraph 8 below and the conversion of $91,700 7% Debentures into 30,567 Western Heritage shares.

8. An assessment received by Home Smith Developments Limited ("Home Smith"), a wholly-owned subsidiary of Great Northern, from the Department of National Revenue indicated a tax loss carry-forward of approximately $28,000,000 as at December 31, 1965. This tax loss carry-forward has been utilized to the extent of approximately $7,000,000 and, in connection with a reorganization of Great Northern and its subsidiaries, certain lands have been sold and transferred by Western and its subsidiaries to Home Smith, as described below, in order to further utilize the tax loss carry-forward.

As of November 1, 1968 certain lands in Ontario and certain lands in Alberta and British Columbia were conveyed by Canarama Western Limited, a subsidiary of Western Heritage, to Home Smith Developments Limited for an aggregate price of $4,530,139. The Ontario lands are unimproved and are located in Markham Township and in the Town of Burlington. The total purchase price for these lands is $3,311,000. The British Columbia and Alberta properties represent both improved and unimproved lands which were sold for $1,219,139. The purchase prices were the appraised values of the respective properties as of February, 1968, and are to be paid over a certain period of time but not later than December 31, 1971.

9. The consent of the auditors of Western Heritage to the inclusion of their report on the financial statements of Western Heritage for the period ended December 31, 1967 in the material accompanying this Directors' Circular is reproduced as follows:

"To Western Heritage Properties Limited:

We hereby consent to the use of our report dated December 27, 1968 on the consolidated balance sheet of Western Heritage Properties Limited and its consolidated subsidiaries as at December 31, 1967 and the consolidated statement of income and earned surplus for the year then ended, accompanying the Take-Over Bid Circular in connection with the Offer by Great Northern Capital Corporation Limited to the shareholders of Western Heritage Properties Limited.

Toronto, Canada
December 27, 1968.

(signed) Clarkson, Gordon & Co.
Chartered Accountants"

10. The contents of this Directors' Circular have been approved and the delivery thereof authorized by the Directors of Western Heritage.

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TELEPHONE: 239-1191

Great Northern Capital Corporation Limited

35 OLD MILL ROAD
TORONTO 18, CANADA

December 30, 1968

To the Holders of Shares of Western Heritage Properties Limited
(other than those resident in the United States of America and the territories and possessions thereof):

Enclosed is an Offer by this company, Great Northern Capital Corporation Limited ("Great Northern"), to acquire all of your shares of Western Heritage Properties Limited ("Western Heritage"). Such Offer will expire on January 31, 1969. Shareholders of Western Heritage accepting this Offer will receive one share of Great Northern for each two shares of Western Heritage deposited in accordance with the Offer.

The following documents are enclosed:
(1) Offer by Great Northern;
(2) Letter of Transmittal;
(3) Take-Over Bid Circular;
(4) Directors' Circular from the Directors of Western Heritage;
(5) Information Circular relating to Great Northern;
(6) Financial Statements of Great Northern as at December 31, 1967 and as at September 30, 1968;
(7) Financial Statements of Western Heritage as at December 31, 1967 and as at September 30, 1968.

The foregoing material explains the reason for the re-organization of Great Northern and Western Heritage which has resulted in Great Northern determining to make this Offer. Briefly, Home Smith Developments Limited ("Home Smith"), which is a wholly-owned subsidiary of Great Northern, has available a substantial tax loss. Great Northern presently owns approximately 70.17% of the outstanding shares of Western Heritage and wishes to utilize part of this tax loss against anticipated profits of Western Heritage through to 1970. To accomplish this result, certain assets of Western Heritage and its subsidiaries have been transferred to Home Smith. In order that Western Heritage shareholders can fully benefit from this re-organization, Great Northern feels that the shareholders of Western Heritage should have an opportunity to become shareholders of Great Northern.

In determining to make the Offer of one Great Northern share for each two shares of Western Heritage, valuations of the shares of both companies were made on the basis of current fair market values of the assets of the companies. These valuations indicate an exchange ratio of approximately 2½ shares of Western Heritage to one share of Great Northern. The Directors of both companies have considered the valuations and are satisfied that the methods used were consistently applied and that the valuations were prepared fairly and equitably. In arriving at the valuations, no value was ascribed to the tax loss carry-forward position of Home Smith referred to above nor was a reduction made in the value of the Western Heritage shares for the dilution factor inherent in the substantial number of convertible debentures and share purchase warrants outstanding.

Great Northern hopes that, as a shareholder of Western Heritage, you will give favourable consideration to the acceptance of the enclosed Offer.

Yours very truly,
Great Northern Capital Corporation Limited

President

Proof only of Draft No. 1 dated 6 June '68.

GREAT NORTHERN CAPITAL CORPORATION LIMITED

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of the shareholders of GREAT NORTHERN CAPITAL CORPORATION LIMITED will be held at the head office of the Company, 35 Old Mill Road, Toronto, Ontario on

THURSDAY, THE 27th DAY OF JUNE, 1968

at the hour of eleven o'clock in the forenoon (Eastern Daylight Time) for the purpose of:

(1) receiving, considering, and if thought fit approving the report of the Directors; the Consolidated Balance Sheet, the Consolidated Statements of Income and Surplus and the Report of the Auditors thereon for the year ended December 31, 1967;

(2) electing Directors for the ensuing year;

(3) appointing the Auditors;

(4) transacting such other business as may properly come before the meeting.

DATED at Toronto this 10th day of June, 1968.

By Order of the Board of Directors,
A. R. VOELKER,
Secretary

If you are not able to be present, please sign and return the accompanying proxy.

INFORMATION CIRCULAR

The Corporations Act
The Securities Act, 1966
Statutes of Ontario

Proxies are being solicited on behalf of the Management of Great Northern Capital Corporation Limited (the "Company"), and the persons mentioned in the form of Proxy have been designated to represent the Management at the Annual Meeting of Shareholders to be held on the 27th day of June, 1968, and at any adjournment or adjournments thereof.

The cost of solicitation will be borne by the Company. The solicitation will be made by mail only. No remuneration will be paid to any person for soliciting proxies, but the Company may, upon request, pay to brokerage firms, fiduciaries and other persons holding shares in their names for others, the charges entailed for sending out proxies to the persons for whom they hold shares.

PROVISIONS RELATING TO VOTING

Shareholders of record at the time of the holding of the Meeting will be entitled to one vote for each share held. The Company has outstanding 2,078,630 shares of its capital stock. A proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is exercised. Two or more shareholders representing in person or by proxy at least 50 per cent of the issued shares of the Company constitute a quorum at meetings of shareholders. All proxies must be lodged with the Secretary at or prior to the commencement of the meeting.

ELECTION OF DIRECTORS

At the Annual Meeting a Board of nine Directors is to be elected, to hold office until the next Annual Meeting of Shareholders or until their successors are elected, and it is the intention of the persons named in the enclosed form of proxy to vote such proxy for the election of the following persons, being the present Directors of the Company, all of whom are standing for re-election.

The Management does not contemplate that any nominee will be unable to serve as a Director for any reason, but should this be the case, the persons named in the accompanying form of proxy reserve the right to vote for another person of their choice in his place and stead.

The names of the present Directors (all of whose terms of office expire at the Annual Meeting and who are nominees for re-election as Directors), their position with the Company, their principal occupation during the past five years, the year in which they each became a Director of the Company and the approximate number of shares of the Company beneficially owned by them, directly or indirectly, as of the 10th day of June, 1968, are as follows:

Name	Position with Company	Principal Occupation During Past 5 Years	Director Since	No. of Shares Beneficially Held
A. L. Beattie, Q.C.	President	Partner—Osler, Hoskin & Harcourt	1965	200
J. O. Boisi	Director	Vice-President—Morgan Guaranty Trust Company of New York	1965	1
G. E. Creber, Q.C.	Director	Partner—Wahn, Mayer, Smith, Creber, Lyons, Torrance & Stevenson	1965	10
J. D. Ground	Director	Partner—Osler, Hoskin & Harcourt	1967	1
G. F. H. Nelson	Director	Vice-President—Investments—United States Steel & Carnegie Pension Fund, Inc.	1965	1
J. E. McConnell	Director	Retired—Formerly President of McConnell, Eastman & Co. Limited	1964	265,929
A. P. Murphy	Director	Banker, The Royal Bank of Canada	1965	1
R. M. Thomson	Director	Deputy Chief General Manager—The Toronto-Dominion Bank	1965	1
J. P. Walwyn	Director	Chairman—Walwyn, Stodgell & Company, Limited	1964	301

Note: The information as to shares beneficially owned by each nominee, not being within the knowledge of the Company, has been furnished by such nominee.

REMUNERATION OF MANAGEMENT

The Company and its subsidiaries did not pay any direct remuneration to any of the Directors during the last completed financial year. The aggregate direct remuneration paid or payable by the Company and its subsidiaries to the Senior Officers of the Company as a group during the Company's last completed financial year was $87,700.

The estimated aggregate cost to the Company and its subsidiaries in the last completed financial year of all pension benefits, other than under the Canada Pension Plan, proposed to be paid under any normal pension plan in the event of retirement at normal retirement age, directly or indirectly, by the Company and its subsidiaries to the Senior Officers of the Company as a group was $4,000. None of the Directors participates in any such benefits.

No options to purchase capital securities of the Company have been exercised by any of the Senior Officers of the Company since the commencement of the Company's last completed financial year. None of the Directors holds any such option.

APPOINTMENT OF AUDITORS

It is intended to vote the proxies hereby solicited to appoint Messrs. Clarkson, Gordon & Co., Chartered Accountants as Auditors of the Company to hold office until the next Annual Meeting of Shareholders. Messrs. Clarkson, Gordon & Co. were first appointed as auditors of the Company on October 25, 1966.

MANAGEMENT CONTRACTS

The Company does not have any management contract and does not pay any management fees.

MANNER PROXIES WILL BE VOTED

The Management does not know of any other matters to be brought before the Meeting other than those hereinbefore set forth and in the Notice of the Meeting. However, if any other matters which are not now known to the Management should properly come before the Meeting (including amendments or variations to matters identified in the Notice of the Meeting), the accompanying proxy will be voted on such matters in accordance with the best judgment of the person or persons voting the proxy.

With respect to the approval of the Report of the Directors and the Financial Statements for the year ended December 31, 1967 the proxy will be voted in accordance with the instruction given on the proxy. If no instruction is given the proxy will be voted in favor of approval.

By Order of the Board of Directors,

A. R. VOELKER,
Secretary.

Toronto, Ontario,
June 10, 1968.

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ANNUAL REPORT

1968

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GREAT NORTHERN CAPITAL CORPORATION LIMITED

GREAT NORTHERN CAPITAL CORPORATION LIMITED

Board of Directors	A. L. BEATTIE, Q.C.	*Toronto, Ontario*
	J. O. BOISI	*New York, New York*
	S. R. HORNE	*Toronto, Ontario*
	G. F. H. NELSON	*New York, New York*
	R. H. McISAAC	*Toronto, Ontario*
	A. P. MURPHY	*Toronto, Ontario*
	G. J. RISBY	*Toronto, Ontario*
	J. D. TAYLOR, Q.C.	*Toronto, Ontario*
	R. M. THOMSON	*Toronto, Ontario*

Officers	R. H. McISAAC	PRESIDENT
	A. V. MAURO, Q.C.	EXECUTIVE VICE-PRESIDENT
	J. C. DAVIES, C.A.	VICE-PRESIDENT —COMMERCIAL PROPERTIES
	C. D. SMITH, P.ENG.	VICE-PRESIDENT—CONSTRUCTION
	A. R. VOELKER, C.A.	VICE-PRESIDENT —RESIDENTIAL PROPERTIES
	D. E. FOX, C.A.	SECRETARY AND TREASURER 363-0195
	H. K. MUEGGLER	ASSISTANT SECRETARY

Registrars and Transfer Agents

CROWN TRUST COMPANY—*Toronto, Montreal, Calgary and Vancouver*

THE BANK OF NOVA SCOTIA TRUST CO. OF NEW YORK

Listing

The Common Shares of the Company are listed on The Toronto Stock Exchange.

Auditors

CLARKSON, GORDON & CO. - *Toronto*

Head Office

35 OLD MILL ROAD - *Toronto, Ontario*

239-1191

President's Report

To the Shareholders:

Consolidated net income of your company in 1968 was $3,822,157 ($1.84 per share) as compared with adjusted consolidated net income in 1967 of $957,937 (46¢ per share). All divisions of your company's operations reported profits for the year.

You will recall that for the past few years the company has been seeking a purchaser for its investment which comprised notes secured by a second mortgage in the Harbour Square waterfront project. I am pleased to report that during the year the company recovered its investment in full plus accrued interest and such interest totalling $674,089 has been included in consolidated net income for the year.

During December 1968 the company made an offer to the minority shareholders of its subsidiary, Western Heritage Properties Limited, to acquire shares of Western Heritage on the basis of two shares of Western Heritage for each share of the company. Response to the offer has been good and as a result the company now owns over 96% of Western Heritage. At March 31, 1969 $963,300 of 7% convertible debentures of Western Heritage were in the hands of the public; the debentures are convertible into shares of Great Northern at the rate of $6.00 per share. Also at March 31, 1969 approximately 270,000 share purchase warrants of Western Heritage were outstanding; these warrants are exercisable to acquire shares of Great Northern on the basis of two warrants and $7.00 for each Great Northern share. At December 31, 1968 the company owned 70% of Western Heritage and the minority interest in that company as shown on the accompanying financial statements is reflected on that basis.

Real Estate Division

Ontario:

Sales in Etobicoke exceeded $2,000,000 during the year and contributed substantially to net income. As reported previously, current expropriations of two parcels of land in Etobicoke had been included in sales in a prior year at the prices offered by the expropriating authorities. During 1968 final settlement was made on one of these parcels and an additional amount of $330,500, including interest, was received and is included in consolidated income. Final settlement on the other parcel has now been negotiated and additional income of $220,000, including interest, will be included in income in 1969.

Sales in Markham and Burlington of 190 lots, 21 acres of industrial land and a 6-acre school site totalled $2,479,000, 57% greater than in 1967.

In Burlington your company owns 615 acres of land composed of 45 acres of fully serviced land in Heritage Industrial Park located on the Queen Elizabeth Way and 570 acres of raw residential land in Brant Hills Estate. Servicing of Stage 2 of this development in readiness for sale of lots in the coming summer is now taking place. Rezoning of 130 acres for a community of single family homes, town housing, apartments and a shopping centre was recently completed. Heritage Industrial Park was put on the market in October 1968 and the sale of 12 acres has already been completed.

In Markham, land holdings at the turn of the year included 19 acres of serviced industrial land, 30 serviced residential lots in Sherwood Estates and in addition 300 acres of raw residential land for which development

proposals on 200 acres are well advanced. The company is proceeding with a proposal to construct a 54-unit town house project in Markham as an income-producing property.

The company is pursuing a policy of increasing its holdings of land in the Province of Ontario.

Western Canada:

Improved market conditions in Edmonton resulted in a modest profit being shown by the Sherwood Park project. Sales in Alberta and British Columbia totalled $722,000 an increase from $547,000 in 1967. Sales are expected to improve further during 1969.

The company's share of profit from a project in Saskatoon in which it has a 55% interest increased to $199,000 from $12,000 in 1967.

Leisure Properties:

The company's project at Hemlock Farms in the Pocono Mountains of Pennsylvania had another good year in 1968. Land sales increased to $3,447,000 up from $2,973,000 in 1967. A further increase is expected in 1969. This project will take an additional 6 to 8 years to complete and in the meantime the company is investigating other opportunities with a view to expanding its operations in the leisure property field. In this connection the company has recently acquired a project composed of approximately 500 acres in Pennsylvania.

BRICK PRODUCTS DIVISION

1968 was a record production year for this division. Sales volume decreased due entirely to a lower starting inventory but improved product prices increased sales modestly from $2,877,000 in 1967 to $2,917,000 in 1968.

Expansion and modernization of the company's Burlington plant is now under way and a new kiln which will increase production by 50% is expected to be fired in September 1969. Although some production and sales increase is expected in 1969 the full impact of this expansion will not be felt until 1970.

GENERAL

Effective January 1, 1969 the company has agreed to acquire all of the shares of Rodell Corporation (1967) Limited. Rodell is a Winnipeg based company engaged in contract drilling operations, distributing heavy construction and industrial equipment, manufacturing parts for drilling equipment and contract manufacturing of jet engine components. Rodell also owns 75% of Columbia Forest Products Ltd. which operates a particle board plant at Sprague, Manitoba with an annual capacity of 36,000,000 board feet. Details of the terms of acquisition may be found in Note 14(b) to the accompanying financial statements.

Through the issue of rights to its shareholders to subscribe for 5% convertible income debentures, the company is raising approximately $7,000,000, no part of which is required for the purchase of Rodell Corporation (1967) Limited. The net proceeds will be used to increase inventory of land for future development, to invest in and develop income-producing properties and to provide financing under any joint venture arrangements for the development and construction of commercial and industrial properties. Further information relative to the rights issue is being mailed to shareholders of record May 2, 1969.

ON BEHALF OF THE BOARD,

President

GREAT NORTHERN CAPITAL CORPORATION LIMITED
AND ITS SUBSIDIARY COMPANIES

Consolidated Statement of Income for the year ended December 31, 1968

(with comparative figures for the year ended December 31, 1967)

	1968	*1967*
Sales:		
Land	$ 9,034,054	*$ 6,213,181*
Manufacturing and other	5,108,314	*3,798,093*
	14,142,368	*10,011,274*
Cost of sales:		
Land	2,686,035	*2,533,808*
Manufacturing and other	3,407,548	*2,163,887*
	6,093,583	*4,697,695*
Gross profit	8,048,785	*5,313,579*
Interest income	430,731	*254,505*
Other income	102,539	*104,558*
	8,582,055	*5,672,642*
Expenses:		
Operating, selling and administrative	3,471,848	*3,449,805*
Interest—		
Long-term debt	493,402	*557,057*
Other	176,316	*217,444*
Depreciation, depletion and amortization	306,603	*307,744*
Amortization of debt discount and financing expenses	12,139	*12,139*
	4,460,308	*4,544,189*
	4,121,747	*1,128,453*
Company's share of net income of a partnership (see Note 6)	199,218	*12,613*
	4,320,965	*1,141,066*
Provision for income taxes	1,835,116	*701,000*
Net income for the year before extraordinary items	2,485,849	*440,066*
Add extraordinary items:		
Income tax credits resulting from the application of loss carry-forwards (see Note 2b)	1,614,700	*890,100*
Other (see Note 12)	153,879	*(372,229)*
	1,768,579	*517,871*
Net income for the year before minority interest	4,254,428	*957,937*
Less minority interest	432,271	*—*
Net income for the year	$ 3,822,157	*$ 957,937*

The accompanying notes are an integral part of the financial statements.

GREAT NORTHERN CAPITAL CORPORATION LIMITED
AND ITS SUBSIDIARY COMPANIES

Consolidated Statement of Surplus for the year ended December 31, 1968

(with comparative figures for the year ended December 31, 1967)

Earned Surplus

	1968	*1967*
Balance at beginning of the year	$2,515,875	*$1,557,938*
Add:		
Net income for the year	3,822,157	*957,937*
Gain on conversion of subsidiary's debt into common shares	238,821	—
	6,576,853	*2,515,875*
Less:		
Write-off of excess of cost of additional investment in a subsidiary company over the underlying book value of its consolidated net assets at date of acquisition, less recovery of prior year's write-off	65,275	—
Balance at end of the year	6,511,578	*2,515,875*

Appraisal Surplus (see Note 3)

	1968	*1967*
Balance at the beginning of the year	170,704	*246,386*
Less:		
Amount earned on land sold during the year	31,152	*75,682*
Balance at end of the year	139,552	*170,704*
Total surplus	$6,651,130	*$2,686,579*

The accompanying notes are an integral part of the financial statements.

GREAT NORTHERN CAPIT

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Consolidated Balance Sh

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ASSETS

	1968	1967
Current:		
Cash and bank term deposits	$ 2,030,194	*$ 1,802,681*
Accounts receivable	1,066,506	*1,224,024*
Amounts receivable under sale agreements	3,957,215	*1,748,171*
Inventories—		
Land, including development costs of $1,451,964 in 1968 and $1,534,863 in 1967 (see Note 3)	2,096,004	*2,210,469*
Other, at the lower of cost or estimated net realizable value	418,073	*559,378*
Notes and mortgages receivable due within one year	21,148	*20,600*
Prepaid expenses	97,452	*92,820*
Total current assets	9,686,592	*7,658,143*
Land inventory, less amount included in current assets (see Note 3)	4,023,264	*3,392,650*
Land options (see Note 4)	22,388	*68,388*
Notes and mortgages receivable, less amounts due within one year included in current assets (see Note 5)	1,377,216	*3,290,065*
Investment in a land development partnership (see Note 6)	429,164	*229,946*
Fixed assets (see Note 7)	4,128,196	*3,898,089*
Other assets—at cost	445,339	*235,628*
Unamortized debt discount and expense (accumulated amortization amounts to $63,067 in 1968 and $50,928 in 1967)	52,224	*64,363*
	$20,164,383	*$18,837,272*

The accompanying notes are an

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ARY COMPANIES

t as at December 31, 1968

as at December 31, 1967)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1968	1967
Current:		
Bank indebtedness—secured (see Note 8)	$ 41,239	*$ 1,339,264*
Accounts payable and accrued liabilities	1,116,557	*938,344*
Income taxes payable—current (secured—see Note 9)	791,410	*1,803,144*
—deferred	498,800	—
Accrued interest	56,505	*65,073*
Estimated costs to complete subdivisions under development	859,185	*928,983*
Demand notes payable—secured	—	*618,605*
Current instalments on long-term debt	660,346	*839,403*
Total current liabilities	4,024,042	*6,532,816*
Long-term debt, less current instalments included in current liabilities (see Note 9)	7,159,960	*7,845,643*
Deferred income taxes	—	*93,000*
Minority interest	645,018	*1*
Contingent liabilities (see Note 10)	—	—
Shareholders' equity:		
Capital stock—		
Authorized:		
2,500,000 shares without par value		
Issued and fully paid:		
2,079,630 shares (2,078,630 in 1967) 1,000 shares issued for cash during the year	1,684,233	*1,679,233*
Surplus—per statement (see Note 9)	6,651,130	*2,686,579*
Total shareholders' equity	8,335,363	*4,365,812*
	$20,164,383	*$18,837,272*

Approved by the Board:

R. H. McIsaac, *Director*

A. L. Beattie, *Director*

gral part of the financial statements.

GREAT NORTHERN CAPITAL CORPORATION LIMITED

AND ITS SUBSIDIARY COMPANIES

Consolidated Statement of Working Capital and Source and Application of Funds for the year ended December 31, 1968

(with comparative figures for the year ended December 31, 1967)

	1968	*1967*
Balance of working capital at beginning of the year	$1,125,327	*$ 409,488*
Funds provided by:		
Operations, excluding charges not requiring funds (depreciation, depletion, amortization and other of $445,066 in 1968 and $721,746 in 1967)	4,267,223	*1,679,683*
Net reduction of notes and mortgages receivable	1,896,981	*30,550*
Shares issued for cash during the year	5,000	—
	6,169,204	*1,710,233*
Funds used for:		
Reduction of long-term debt	286,683	*805,859*
Net purchases of fixed assets	538,265	*298,688*
Land options purchased	6,000	*13,200*
Collateral deposits	209,711	*(65,937)*
Minority interest	12,708	—
Change in non-current portion of land inventory	578,614	*(57,416)*
	1,631,981	*994,394*
Increase in working capital	4,537,223	*715,839*
Balance of working capital at end of the year	$5,662,550	*$1,125,327*

The acco mpanying notes are an integral part of the financial statement.

GREAT NORTHERN CAPITAL CORPORATION LIMITED
AND ITS SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements
December 31, 1968

1. Statement Presentation and Foreign Exchange Conversion

(a) In the accompanying financial statements the accounts of all subsidiary companies have been consolidated with those of the company.

(b) U.S. dollar amounts included in these financial statements are converted into Canadian dollars at the official rate of exchange which approximates the current rate of exchange at December 31, 1968.

(c) The foreign exchange adjustment previously shown in consolidated earned surplus in 1967 has been reclassified as an extraordinary item in the attached consolidated statement of income.

2. Changes in Accounting Principles

(a) In the years prior to 1968 the company had followed a policy of amortizing the development costs of a peat bog over its estimated useful life. In 1968 the unamortized development costs of the peat bog less applicable income taxes have been written off and are included in extraordinary items in the consolidated statement of income for the year ended December 31, 1968.

(b) For the year ended December 31, 1968 the company adopted the tax allocation basis of computing the provision for income taxes and accordingly the amount of the loss carry-forward tax credit, which under the previous basis would have been netted against the tax provision, is included as an extraordinary item in the consolidated statement of income. The 1967 provision has been restated to the basis adopted in 1968.

The loss carry-forward tax credits shown on the accompanying statement of consolidated income become available principally as a result of the application of the tax loss carry-forward of a subsidiary, Home Smith Developments Limited. Accordingly, it is expected that no substantial amount of income tax will be payable for the years 1969 and 1970.

3. Land

Land is carried at cost except for certain land which is carried at 1953 appraised value. The amount of the appraisal write-up remaining in the accounts as at December 31, 1968 was $139,552 ($170,704 at December 31, 1967). Appraisal surplus earned on land sold during the year has been grouped in cost of sales.

4. Options on Land

A subsidiary company has options to purchase a total of 651.5 acres (831 acres at December 31, 1967) of land at prices varying from $300 to $1,200 per acre. The amount required to exercise all the options after deducting recoverable option payments of $17,400 ($68,388 at December 31, 1967) is $323,200 ($344,212 at December 31, 1967). Fees of $1,200 are payable within one year to maintain the options.

5. Notes and Mortgages Receivable

The company's investment in notes and mortgages is recorded at cost except for:

(1) senior secured notes of Atlantic Acceptance Corporation Limited carried at estimated realizable value of $875,000 which is 70% of their face value;

(2) certain promissory notes carried at a nominal value of $1.

The 10% notes due February 28, 1966 in the amount of $1,870,000 plus accrued interest were paid in full on November 29, 1968. Accumulated interest less applicable income taxes prior to 1968, which had not previously been recorded, has been included in the accompanying consolidated statement of income in 1968 as an extraordinary item.

6. Partnership Interest

The company's 55% interest in a land development partnership is carried at cost plus the company's share of income less losses since acquisition.

7. Fixed Assets

Fixed assets, at cost, consist of the following:

	1968	1967
Land and land improvements	$ 259,859	$ 259,860
Buildings	1,515,961	1,455,855
Machinery and equipment	3,172,960	2,691,578
Country Club and golf course facilities	1,258,039	1,153,935
Clay deposit and peat moss bog	311,516	454,612
	6,518,335	6,015,840
Less accumulated depreciation and depletion	2,390,139	2,117,751
	$4,128,196	$3,898,089

8. Bank Indebtedness and Income Taxes Payable

Assets having a book value in excess of the bank indebtedness and income taxes payable have been pledged as collateral against these liabilities.

9. Long-Term Debt

Long-term debt consists of the following:

		1968	1967
Great Northern Capital Corporation Limited—			
5½% notes due 1976 (U.S. $3,500,000)		$3,783,780	$4,108,104
6% first mortgage bonds due 1970		123,276	128,099
		3,907,056	4,236,203
Subsidiary companies—			
2¾% mortgage due 1969 to 1977		80,658	89,449
5% note due 1968		—	100,000
5½% mortgages due 1969		20,000	20,000
6% mortgages due 1969 to 1977		1,186,787	1,261,421
6% first mortgage bonds due $100,000 on March 31 of each year 1969 to 1971		300,000	400,000
6½% mortgage due 1968 to 1970		—	181,468
7% subordinated convertible debentures Series A due June 30, 1973	$3,840,400		
Less inter-company holdings	2,818,100	1,022,300	1,421,300
7% mortgages due 1970 to 1978		510,595	77,993
7¼% mortgages due 1971 and 1972		248,691	344,027
7½% mortgage due 1969		17,628	44,923
8% mortgage due 1969 to 1974		376,169	285,000
10% mortgage due 1969		21,450	61,200
Miscellaneous mortgages		128,972	162,062
		3,913,250	4,448,843
Total long-term debt		7,820,306	8,685,046
Less current instalments included in current liabilities		660,346	839,403
		$7,159,960	$7,845,643

Pursuant to the terms of the agreement in connection with the issuance of the 5½% notes due December 1, 1976, the company may not make any distribution to the shareholders by way of dividends or otherwise in cash or other assets except to the extent that any such distribution shall be represented by consolidated net earnings accrued since December 1, 1957.

Giving effect to an agreement made with the noteholders subsequent to December 31, 1968 the company is required to apply to the prepayment of the notes, without premium, the sum of U.S. $200,000 on December 1 in each year 1969 and 1970, U.S. $500,000 on December 1 in each year 1971 to 1975 and U.S. $600,000 on December 1, 1976. The company may prepay the 5½% notes at any time upon payment of a premium of 2¼% to November 30, 1969, decreasing ¼% annually to November 30, 1976.

The 7% subordinated debentures Series A of a subsidiary company have been issued under a trust indenture and are redeemable at the option of the subsidiary in whole or in part at 102½% of the principal amount up to and including June 30, 1969 and at decreasing premiums thereafter prior to maturity plus accrued interest to the date of redemption. The debentures are convertible at the option of the holder into shares in the capital of the subsidiary company at $3.00 per share prior to redemption or maturity

(see Note 14a). During the year $399,000 of debentures were converted into 133,004 shares of capital stock of the subsidiary company. Subsequent to December 31, 1968 a further $59,000 of debentures were converted into 19,667 shares of the subsidiary company.

10. CONTINGENT LIABILITIES

As at December 31, 1968 a subsidiary company is contingently liable for sale agreements discounted in the approximate amount of $1,996,000 ($2,247,800 at December 31, 1967) and mortgage loans in the amount of $27,197 ($29,477 at December 31, 1967).

11. GENERAL

(a) As a result of a proposal made to creditors under Part III of the Bankruptcy Act on April 21, 1966, all liabilities of a subsidiary were extinguished with the exception of certain amounts owing to a secured creditor. The liability to this creditor is restricted by agreement to the amounts realized by him out of his security. Accordingly, the assets securing his indebtedness and the offsetting liability are not included in the accompanying consolidated balance sheet.

(b) The total remuneration paid or payable by the company and its subsidiaries to its directors and officers (defined by the Ontario Corporations Act to include the five highest paid employees) with respect to the year ended December 31, 1968 amounted to $116,000.

12. EXTRAORDINARY ITEMS—OTHER

Details of extraordinary items—other, included in the consolidated statement of income are as follows:

Year ended December 31, 1968		
Prior years' accrued interest on outstanding notes (see Note 5)	$234,584	
Write-off of unamortized peat bog expenditures (see Note 2a)	(64,837)	
Write-down of notes receivable to a nominal value	(15,868)	$153,879
Year ended December 31, 1967		
Foreign exchange adjustment on certain long-term debt (see Note 1c)		$(372,229)

13. COMMITMENTS

The unexpended portion of fixed asset and land acquisition costs authorized as at December 31, 1968 and not included in the accompanying financial statements amounts to approximately $5,000,000.

14. SUBSEQUENT EVENTS

(a) On December 30, 1968 an offer was made to all the shareholders of Western Heritage Properties Limited, other than U.S. shareholders, to acquire all the outstanding shares of Western Heritage not then owned by the company on the basis of one Great Northern Capital common share for each two common shares of Western Heritage. The total number of shares issued by the company to March 31, 1969 in connection with this offering amounted to 176,162.

As of January 24, 1969 the company entered into supplemental indentures with the holders of 7% Subordinated Convertible Debentures Series A due June 30, 1973 and share purchase warrants of Western Heritage. The supplemental indentures provide that the company guarantee the performance of all Western Heritage's obligations under the original indentures and that the conversion privileges and rights of purchase provided for under the indentures shall be exercisable in shares of the company on the basis of (i) one share of the company for every $6.00 principal amount of debentures; (ii) one share of the company for every two share purchase warrants plus $7.00. The total number of shares issued to March 31, 1969 in connection with the above amounted to 6,149.

The company obtained Supplementary Letters Patent dated January 13, 1969 increasing the authorized capital from 2,500,000 shares to 7,500,000 shares.

(b) The company has agreed to acquire from McIsaac Investments Limited all of the issued and outstanding shares of Rodell Corporation (1967) Limited. The basic purchase price payable for the shares of Rodell is $2,500,000 which will be satisfied by the issue of $2,500,000 aggregate principal amount of 5% Convertible Income Debentures. The agreement will also provide for payment of an additional purchase price calculated in accordance with a weighted average of the consolidated earnings of Rodell and its subsidiary companies for the years 1969, 1970 and 1971. If these weighted average earnings for the three-year period exceed $250,000, the excess will be capitalized on an eight times basis to determine the additional purchase price payable and the additional purchase price so calculated will be satisfied by the issue of shares of the company at the then current market price.

(c) The company intends to offer shareholders of record May 2, 1969 (other than U.S. shareholders) the right to purchase at par $300 of 5% Convertible Income Debentures for each 100 shares of the company held. These debentures will be limited to $12,500,000 principal amount of which approximately $10,000,000 will be authorized for immediate issue.

Auditors' Report

To the Shareholders of
GREAT NORTHERN CAPITAL CORPORATION LIMITED:

We have examined the consolidated balance sheet of Great Northern Capital Corporation Limited and its subsidiary companies as at December 31, 1968 and the consolidated statements of income, surplus and working capital and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the changes explained in Note 2, with which changes we concur.

Toronto, Canada,
April 11, 1969.

CLARKSON, GORDON & CO.
Chartered Accountants

GREAT NORTHERN CAPITAL CORPORATION LIMITED

HEAD OFFICE
35 OLD MILL ROAD
TORONTO 590, ONTARIO

DIVISIONS AND SUBSIDIARIES

Home Smith Developments Limited
35 Old Mill Road
Toronto, Ontario

Home Smith Properties Limited
35 Old Mill Road
Toronto, Ontario

Humbria Limited
35 Old Mill Road
Toronto, Ontario

Diamond Clay Brick Products
#5 Highway
Burlington, Ontario

Empire Clay Products Inc.
Route 240
West Falls, N.Y.

Western Heritage Properties Limited
35 Old Mill Road
Toronto, Ontario

Hemlock Farms
Lords Valley
Hawley, Pennsylvania

Western Heritage Properties (Ontario) Limited
35 Old Mill Road
Toronto, Ontario

Canarama Western Limited
2000 Oak St.
Sherwood Park, Alberta

The Old Mill Limited
35 Old Mill Road
Toronto, Ontario